

Boao Forum for Asia

Asian Competitiveness

Annual Report 2015



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Asian Competitiveness
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Preface

In the year 2014, Asian economies were all looking for or releasing a new impetus to their development, but their achievements were mixed. As uncertainties arose in the world economy, the major Asian economies were affected to varying degrees, but still, they performed well in a general sense. Asia is still an important engine that drives the global economic recovery. Economic growth in the Asia-Pacific region was expected to reach 5.5% and 5.6% in 2014 and 2015, respectively, well above that of the developed economies, according to the International Monetary Fund's *Regional Economic Outlook Update: Asia and Pacific*, which was released in October 2014.

Looking ahead, Asian economies will be confronted with challenges due to the ever-changing external political and economic environment. Geopolitical conflicts, the differentiation of monetary policies and the plunge of commodity prices, interwoven with other factors, are set to hinder Asian economies' momentum of high-speed growth. In 2014, many economies were committed to pushing forward multi-faceted reforms. They also launched various policies to better answer to changes, both internally and externally. It was a time when China was deepening all-round reform, India was committed to boosting Modi's New Deal, and Japan continued its stimulus policies to fight against deflation. These endeavors demonstrate to the world that Asia is still the region that is well in the development stage, pursuing changes and advancing with competitiveness.

The future of Asia is within the hold of the region itself. Asian economies' active approaches will not only serve to improve their own competitiveness but also help fend off external risks, which in return will win them more room for development. At present, the US economy is steaming to recovery and will be able to boost exports of major economies in Asia to some extent. However, a more attractive Asian market is in the making, especially when Asian economies are promoting infrastructure interconnectivity and facilitating trade and investment. It will serve for Asia's economic integration, and smooth the process of establishing a free trade zone in the Asia-Pacific region, which will greatly enhance the endogenous impetus of Asian economies.

It's demanding but rewarding work to assess the competitiveness of Asian economies and enterprises in the region. The 2015 report reviews the competitiveness performance of 37 economies in the Asia-Pacific region, disclosing the overall competitiveness of each of these economies. This report has become one of the iconic publications at the Boao Forum for Asia. It has drawn wide attention from the international community and media organizations, and sparked discussion on related subjects in political, business and academic circles, thus deepening the understanding of Asia's new development. It is noteworthy that the report is not limited in only evaluating economies in Asia, but stretches its scope to cover the performance of listed enterprises in the region. These efforts enable us to observe the pros and cons emerging in the process of economic development in a general view, and also make it possible to examine enterprises, the individual organs that drive forward social development.

It has been five years since we initiated the study to assess Asian economies, and our research team has been working on and improving the report through their diligent work. After a few years' time, the Asia Competitiveness Report has improved thanks to generous encouragement from experts and scholars at home

and abroad, and it has become a brand-name publication at the Boao Forum for Asia.

We first carried out this study with the intention of making Asia create and share the development dividends as a whole, but the goal is beyond reach by just publishing a series of reports. It would be impossible without the sincere and active support and participation of global leaders in all the fields.

I hope that this report will ignite our thinking and action, and thus jointly compose a new chapter for Asia's future.



Zhou Wenzhong
Secretary-General
Boao Forum for Asia

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Part One
Annual Report 2015—
Competitiveness of
Asian Economies

Chapter 1

Internal and External Environments Affecting the Competitiveness of Asian Economies

1.1 The Competitiveness of Asian Economies Is Faced with such Global Economic Situation: the Recovering Momentums of Developed Economies Vary Significantly with Their Monetary Policies Diversified Accordingly

In 2014, the global economic recovery continued in a differentiated way. Still, there was insufficient internal impetus driving economic growth, and the world economy was confronted with risks such as diversified monetary policies among different countries, as well as regional unrest. In the year of 2014, a robust rebound of the US economy played the key role in maintaining the growth of the world economy. Its GDP grew at an annualized rate of 4.6 % in the second quarter and jumped further to 5% in the following four months, hitting an 11-year high. In contrast, Europe and Japan were lingering on the verge of growth and recession; China and India witnessed continuous economic slowdown; of the BRIC countries, the economic growth of Brazil and Russia were close to none. These facts were the major culprits that drive the global economic recovery in a slow lane.

In addition to short-term factors, the root of the global slowdown rested on the insufficient internal impetus and the three reasons of which

were as follows: The first is the weakening demographic dividend. Developed economies, especially Europe and Japan, are in the era of aged societies with a dwindling labor population, which dampens human capital's contribution on economic growth. Similarly, China is at the inflection point of demographic dividend, with its economy shifting to a "new normal" that pursues medium and high growth rate. Second, the accumulation of capital was under regulatory control. The strict financial supervision hinders the financial sector's ability to bolster the economic recovery. Third, there were few marked breakthroughs in technological innovation. The rise of labor productivity, brought by the innovation of technology and management, serves as another fountainhead of economic growth. However, after the global financial turmoil, the world was shunned with technological innovation that could be transferred into productivity, thus failed to see massive fixed-asset investment or the upgrading of consumption.

Looking forward to 2015, the world economy will bounce back at a faster pace, and is expected to see a new inflection point. Specifically, the world economy will experience a solid recovery, thanks to the following factors. First, the short-term factors that impeded the economic recovery are set to alleviate or fade away. In 2015, the US, Japan, Europe and China will see their economies grow at a steady pace and their trade activities will push forward economic growth in other regions.

Second, the price decline of commodities will have negative impact on commodity exporters, but obviously, it helps to cut factor cost of the world economic growth and to promote investment and consumption. Third, there will be a new round of robust growth in infrastructure construction in the whole world, especially in countries along the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road". Fourth, progress will be seen in terms of the rebalancing of the world economy. The imbalance of international payments between the US and China will be eased. China will become less dependent on the external environment, thank to its reform and continuing industrial restructuring. Meanwhile, China's expansion in imports will benefit the exports of emerging economies in Asia, as well as exporting countries of primary commodities.

However, the world economy still faces two risks on its way to growth in 2015. One is the differentiation of monetary policies. The developed economies ended their tendency toward synchronous monetary easing. New Zealand became the first to raise interest rates, and the US Federal Reserves completely stepped out of quantitative easing. The US and the UK were about to shift their interest rate policies. On the contrary, the European Central Bank unprecedentedly launched negative interest rate policy, and may initiate the European version of quantitative easing. Bank of Japan raised the amount of capital purchase. At the same time, monetary policies also varied among emerging economies. Countries like Russia and Brazil continued to raise interest rates and to interfere the foreign exchange markets, in an effort to counter the pressure of inflation and depreciation. In contrast, countries including China, Chile and Turkey lowered interest rates to boost their

economy. The other is the non-economic related factor, of which, the extended and complicated geopolitical risks in East Europe, will cast shadows on the world's political and economic situations over a long period of time.

1.2 The Asian Economy Is Significantly Slowing Down with Varied Conditions in Different Economies within the Region

Prompted by the loose monetary policies within the region, the growth rate of Asian economy continued to spearhead in the world in 2014. It, together with the US economy's strong recovery, becomes a key driving force to keep the world economy to maintain steady growth. The Asian economy is estimated to grow 5.5% in 2014 (See Table 1.1), thanks to the strong recovery of the US economy, which shored up Asian countries' exports, as well as the generally loose credit environment in the region. In 2014, as the US dollar kept appreciating and the US economy was on the track of recovery, Asia's exports accelerate after May, with exports to the US growing 10.89% in July (See Figure 1.1), and that to the euro zone jumping as high as 26.6%. Judging from the credit environment, Japan's private sector credit growth stepped out of the sustained negative trend in the first ten years of the new century. Similarly, credit growth in economies, such as Thailand, Malaysia, Indonesia, and China's Hong Kong, was significantly higher than that in the past ten years. For major Asian emerging economies like China and India, though their credit growth was lower than that in the past ten years, it still expanded at a steady but relatively high pace (See Figure 1.2).

Table 1.1 Economic Growth Trends of Major Economies in Asia-Pacific Region, 2011-2015 (%)

Economy	2011	2012	2013	2014	2015
Australia	2.6	3.6	2.3	2.8	2.9
Japan	-0.5	1.5	1.5	0.9	0.8
New Zealand	1.9	2.5	2.8	3.6	2.8
East Asian Economies	8.4	6.7	6.9	6.8	6.6

continued

Economy	2011	2012	2013	2014	2015
China, People's Republic of	9.3	7.7	7.7	7.4	7.1
China's Hong Kong	4.8	1.5	2.9	3.0	3.3
Korea, Republic of	3.7	2.3	3.0	1.1	4.0
China's Taiwan	4.2	1.5	2.1	3.5	3.8
South Asian Economies	6.7	4.9	5.1	5.7	6.4
Bangladesh	6.5	6.3	6.1	6.2	6.4
India	6.6	4.7	5.0	5.6	6.4
Sri Lanka	8.2	6.3	7.3	7.0	6.5
ASEAN Economies	4.9	6.0	5.3	4.7	5.4
Brunei	3.4	0.9	-1.8	5.3	3.0
Cambodia	7.1	7.3	7.4	7.2	7.3
Indonesia	6.5	6.3	5.8	5.2	5.5
Laos	8.0	7.9	8.0	7.4	7.2
Malaysia	5.2	5.6	4.7	5.9	5.2
Myanmar	5.9	7.3	8.3	8.5	8.5
The Philippines	3.7	6.8	7.2	6.2	6.3
Singapore	6.1	2.5	3.9	3.0	3.0
Thailand	0.1	6.5	2.9	1.5	4.6
Vietnam	6.2	5.2	5.4	5.5	5.6
West Asian Economies	5.3	4.4	4.8	2.5	2.7
Bahrain	5.5	2.1	3.4	5.3	3.9
Iran	5.0	3.9	-6.6	-1.9	1.5
Kuwait	4.8	10.2	8.3	-0.4	1.4
Oman	3.6	4.1	5.8	4.8	3.4
Qatar	12.7	13.0	6.1	6.5	6.5
Saudi Arabia	5.0	8.6	5.8	4.0	4.6
Afghanistan	...	6.5	14.0	3.6	3.2
Jordan	6.1	2.6	2.7	2.9	3.5
Pakistan	4.5	3.6	3.8	3.7	4.1
Kazakhstan	8.5	7.5	5.0	6.0	4.6
Kyrgyzstan	4.2	6.0	-0.9	10.5	4.1
Georgia	5.9	7.2	6.2	3.2	5.0
Asian Emerging Economies	7.8	6.7	6.6	6.5	6.6
Asia	6.2	5.5	5.5	5.5	5.6

Note: Asian emerging economies include China, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam. Data of 2014 and 2015 are forecast.

Source: IMF

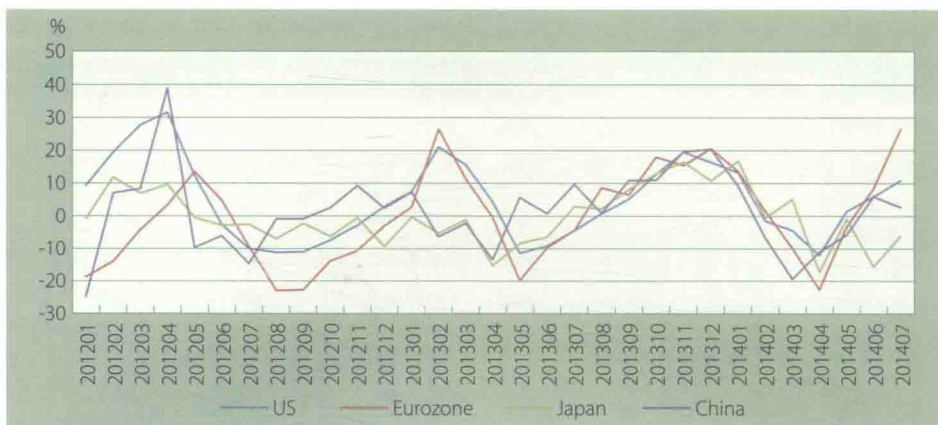


Figure 1.1 Exports Growth of Major Asian Economies to the World's Major Economies

Note: The major Asian economies include China, Japan, Republic of Korea, China's Taiwan, China's Hong Kong, Malaysia, the Philippines, Singapore and Thailand.

Source: IMF

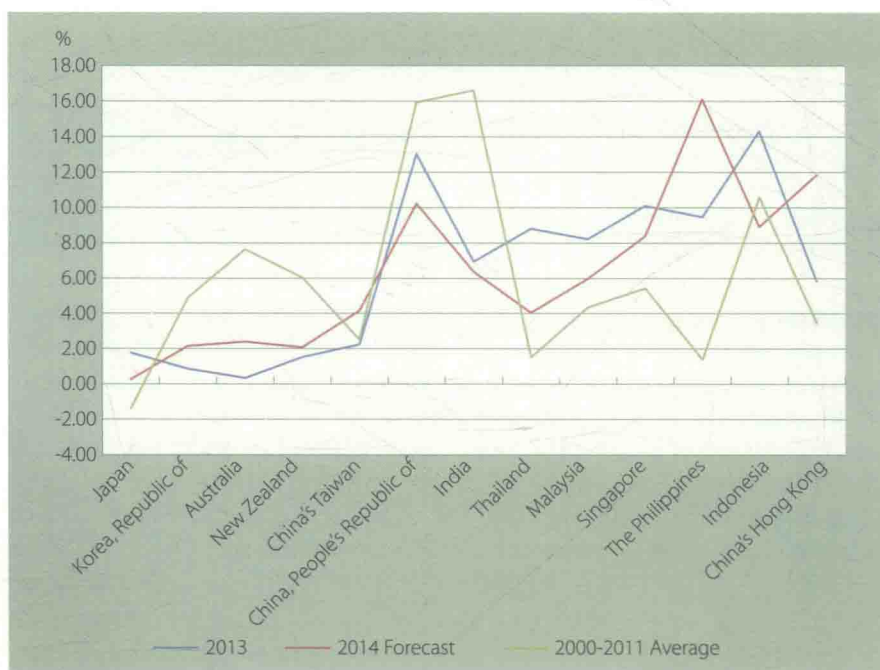


Figure 1.2 Private Sector Credit Growth of Asian Economies

Source: IMF

Due to the consumption tax hike, Japan's economy fluctuated fiercely in the first three quarters of 2014. Thanks to the "moved up" consumption, Japan's real GDP grew 6.7% year-on-year, or 1.6% quarter-on-quarter, in the first quarter, hitting a new high since the third quarter of 2011. After the consumption tax hike, its real

GDP in the second quarter fell 1.8% quarter-on-quarter, or 7.1% at an annualized rate, making it the biggest slump since the first quarter of 2009. The country's economy continued to drop in the third quarter, falling 0.5% quarter-on-quarter, or 1.9% at an annualized rate. Japanese companies' capital spending, a pillar to the